

## UNIVERSAL SERVICE AND UNIVERSAL CALLING

### What is universal service/universal calling?

The concept of universal service/universal calling began in the early 1900s.

- Telephone service was a luxury, only available to a small percentage of the population.
  - In the early 1920s only about 35% of Americans had access to telephone service.
- Telephone service was generally not available in high cost rural areas.
  - Actual costs to provide telephone service are driven by density and distance. In rural areas there is lower density and longer distances between customers. It was too costly to provide service in these areas without subsidies.
- There were multiple telephone providers in urban areas and their networks did not connect to each other.
  - Customers could only call other customers being serviced by the same provider.
- It was recognized that the more people with access to telephone service the greater the benefit to everyone. This would make the service more valuable to everyone.

### Theodore N. Vail - Champion of universal service:

First President of American Telephone and Telegraph Company (AT&T). He retired in 1919.

- “One policy, one system, and universal service.”
- He convinced the public and the government that the best possible phone system was one that could provide "**universal service**" around the country.
  - Telephone service became a monopoly. That was the mechanism to provide universal service.
- Universal service was achieved through **implicit** subsidies:
  - Long-distance service rates subsidizing local service rates.
  - Business service rates subsidizing residential service rates
  - Urban service rates subsidizing rural service rates.

### Why is a USF still needed?

- The way universal service is funded has changed but not the need for universal service. There still is a need for subsidies to providers so that they will continue to serve high cost rural areas that otherwise are not economical to serve.
- Because of technology changes and competition (elimination of the monopoly environment) subsidies have been moved to explicit subsidies. The Utah Universal Service Fund and the federal Universal Service Fund (USF) are examples of explicit subsidies. The federal USF only provides partial subsidies. That is why there continues to be a need for a state USF.
- Without USF, service into rural high cost areas, which are not economical to serve, would fall behind those in areas with higher density and would begin to diminish and eventually be eliminated.

- Rural telecommunication providers that receive ongoing Utah USF support have made and continue to make investments, where the recovery of that investment will happen over a long period of time. They do not receive an upfront construction subsidy making the investment economical at the time the investment is made.
  - Without the ongoing subsidies, rural telecommunication providers would not make the necessary investments in rural high cost areas to support universal service, because there would be no hope for recovery of the investment and no opportunity to get a reasonable return on the investment.
- Even though there is widespread availability of wireless service, wireless providers have benefited from the universal service subsidies that have allowed rural telecommunication providers to construct telecommunication facilities, including fiber facilities, throughout their territories to serve customers.
  - The cell sites necessary to support wireless service are connected to wireline backbone facilities. These cell sites are often connected with the fiber facilities of the rural telecommunication companies.
    - If backbone facilities are not nearby to connect rural high cost cell sites, the wireless provider may not build the cell site because the upfront costs to have backbone facilities built out to the cell sites are cost prohibitive.
      - The number of cell sites and the capacity of the back bone facilities connecting the wireless cites, impacts the coverage areas and the quality of service of wireless providers.
    - Without the universal service subsidies, many rural high cost cell sites would not exist, and existing coverage areas would be smaller.

#### **What is included in the Utah USF?**

- The Utah USF provides subsidies to rural telecommunication providers who serve in high cost areas, to support basic telephone service, to ensure that it is available at reasonable prices. (CenturyLink does not receive high cost support)
- The Utah USF also provides a \$3.50 per month subsidy for basic residential telephone service for qualified low-income customers. (CenturyLink is a Lifeline provider to low-income customers.)

#### **What has changed with the federal USF?**

- The federal USF is changing to support high speed internet service that is capable of supporting voice service.
- The federal Lifeline program currently provides a \$9.25 a month subsidy for voice service (Traditional landline telephone service, VoIP service or wireless service.) benefiting qualified low-income customers.
  - Over a period of time, the support for voice service will phase out and support will only be provided for high speed internet service.